Earnings Call Insight | 3Q26

UAE Equity Research | Sector: Consumer Staples | Market: ADX

LuLu Retail Holding PLC

Current Price	Target Price	Upside/Downside (%)	Rating
AED 0.97	AED 1.30	+34%	BUY

3Q26 Net Profit lower than our estimate

- Lulu Retail's revenue increased 2.0% YOY to USD 1,935 Mn in 3Q26, supported by growth in food sales, new store openings, continued e-commerce growth and higher wholesale sales, partially offset by lower non-food sales amid weak consumer sentiment, although non-food trends improved compared with 2Q26.
- Like-for-like (LFL) sales declined 1.9% YOY in 3Q26, an improvement from the 5.9% YOY decline in 2Q26.
- The Company opened five new stores in 3Q26 across KSA, the UAE, Oman and Kuwait, comprising two Hypermarkets, two Express stores and one Mini Market, adding 18,776 sqm of selling space during the quarter.
- Cost of revenue increased 3.1% YOY to USD 1,492 Mn in 3Q26.
- Gross profit declined 1.2% YOY to USD 444 Mn in 3Q26, with gross margin contracting 75 bps YOY to 22.9% in 3Q26 due to higher input costs and limited pricing pass-through.
- Reported EBITDA declined 2.8% YOY to USD 175 Mn in 3Q26, with EBITDA margin declining to 9.1% in 3Q26 from 9.5% in 3Q25, primarily due to lower gross margin along with additional staff and rental costs associated with new store openings and higher aggregator commissions, partially offset by ongoing cost optimisation initiatives.
- Net profit declined 19.1% YOY to USD 29 Mn in 3Q26, mainly due to higher cost of revenue and operating expenses, coupled with higher income tax expense, partially offset by higher revenue and other operating income, as well as lower net finance cost. Despite input cost pressures and limited pricing pass-through, profitability was maintained, supported by disciplined cost management and lower operating costs across the mature store network.
- The Company's capex stood at USD 27 Mn in 3Q26, equivalent to 1.4% of revenue, compared with USD 29 Mn, or 1.5% of revenue, in 3Q25, reflecting a continued focus on a capital-efficient expansion model and a balanced approach to maintenance and growth investments.
- Lulu paid an interim dividend of 3 fils per share for 1H26, equivalent to c. USD 84 Mn, and reaffirmed the commitment to the 75% dividend payout policy, paid semi-annually.

Earnings Call Summary

- The retail footprint expanded to 288 stores, with five new stores opened during 3Q26, comprising two Hypermarkets, two Express stores and one Mini Market. These added 18,776 sqm of selling space and brought total selling space to 1.427 Mn sqm as of September 2026. Year-to-date openings reached 22 stores.
- The Company has identified a pipeline of c. 50 new stores over 2027–2029, weighted towards the earlier years, with roughly one-third each in the UAE, KSA and the other GCC markets, and c. 75% in the Express and Mini Market formats. New stores typically take 12–18 months to ramp up. The Company noted that the store rollout will remain selective, where returns are attractive, and is planned separately from the e-commerce strategy.
- The daily shopper count is c. 690,000 on an underlying basis, with the figure varying across quarters because of seasonality.
- E-commerce continued to scale, contributing 9.7% of retail sales, up 335 bps YOY, with 53.1% YOY growth to USD 177 Mn in 3Q26. Growth was led by Lulu's own platform, where sales more than doubled YOY, and was consistently high across all six GCC markets.

- The Company noted that online gross margins are broadly similar to stores, with a slight impact at the EBITDA level from aggregator commissions and last-mile delivery costs on the own platform, although own-platform margins are expected to improve as scale builds. Lulu is positioned on 60–90-minute delivery rather than competing in quick commerce.
- Digital capabilities continued to advance, with a re-engineered app featuring live order tracking, AI-driven voice and image search, an AI shopping assistant and personalised recommendations. Happiness points can be earned and redeemed both online and in store. The Company also launched Lulu Money remittance services in partnership with Lulu Exchange, which is expected to ramp up over the next few quarters.
- The Happiness loyalty programme increased to 10.0 Mn members, with nearly 590,000 additions in 3Q26, while loyalty-linked sales accounted for c. 70% of retail sales. Private label sales contributed USD 551 Mn, with penetration of 30.2% of retail sales.
- LFL sales declined 1.9% YOY in 3Q26, a USD 36 Mn impact, which was more than offset by USD 43 Mn from new stores and USD 32 Mn from wholesale and other channels. The Company highlighted that LFL sales grew consistently by 2–3% over the last two full years and that food LFL was positive in 3Q26, supported by volume growth. The Company expects overall LFL to turn positive as trading conditions continue to normalise.
- The Company noted that the sales mix has historically been c. 70% food and 30% non-food, with food's share rising slightly in recent quarters as non-food weakened. Softer demand in electrical and lifestyle categories weighed on Qatar, while changes in product mix lowered average selling prices in KSA non-food.
- Gross margin contracted c. 75 bps YOY to 22.9%, reflecting margin compression across CPG, Fresh Food and department store categories due to higher input costs.
- The Company expects the externally driven cost pressures to reverse in the coming months and quarters, while greater use of private label and direct imports, pricing initiatives, more effective promotions and improved commercial terms should support a recovery and expansion of gross margin over the longer term.
- In KSA, the revenue decline moderated to 6.6% YOY, while segment adjusted EBITDA increased 40.7% YOY to USD 14 Mn. This was supported by a c. USD 5 Mn reduction in operating expenses, including c. USD 8 Mn of staff cost savings from a store-level headcount reorganisation. The Company is assessing the impact of the new minimum wage regulation in KSA but remains confident of absorbing it. KSA margins, currently below the Group average because of a higher proportion of new stores, are expected to move towards the Company average over the medium term.
- The Company continues to pursue strategic projects across commercial excellence, data monetisation and retail media (including in-store screens, app placements and a shopper insights portal for brands), loyalty, and AI-driven productivity to support margins and diversify revenue.
- Operational resilience was maintained through a multi-geography sourcing network, strategic inventory buffers in essential categories and key markets, active monitoring of landed costs with selective pricing pass-through, and continued discipline across logistics, opex and working capital. Inventory write-offs, mainly in fresh food, have historically run at up to c. 1%.
- Leverage increased to 3.8x on an IFRS 16 basis and 1.7x excluding leases, reflecting the strategic inventory build, the 1H26 dividend payment and new leases. Cash conversion improved to 84.9% in 3Q26 from 84.0% in 3Q25. The Company is within the scope of Pillar Two but expects the impact to be minimal, given transitional support and substance-based benefits.
- The Company reaffirmed the commitment to the 75% dividend payout policy, paid semi-annually, and expressed optimism heading into 4Q26 and 2027 as trading conditions continue to normalise, although no formal guidance was provided.

LuLu Retail - P&L

(USD Mn)	3Q25	2Q26	3Q26	3Q26F	Var.	YOY Ch	QOQ Ch
Revenue	1,896	1,971	1,935	1,913	1.1%	2.0%	-1.8%
Cost of revenue	-1,447	-1,518	-1,492	-1,468	1.6%	3.1%	-1.8%
Gross profit	**449**	**453**	**444**	**446**	**-0.5%**	**-1.2%**	**-2.1%**
Other operating income	73	79	77	77	-1.1%	4.3%	-3.1%
Operating expenses	-440	-447	-446	-442	0.8%	1.2%	-0.2%
Finance cost, net	-42	-37	-41	-39	2.7%	-3.6%	10.5%
EBITDA	**180**	**182**	**175**	**179**	**-2.2%**	**-2.8%**	**-3.8%**
Profit before tax	**40**	**49**	**34**	**42**	**-18.8%**	**-14.9%**	**-30.3%**
Income tax expense	-4	-7	-5	-5	-2.9%	22.5%	-26.7%
Net profit	**36**	**42**	**29**	**37**	**-21.0%**	**-19.1%**	**-30.9%**

FABS estimate & Co Data

Research Rating Methodology:

Rating	Upside/Downside potential
BUY	Higher than +15%
ACCUMULATE	Between +10% to +15%
HOLD	Lower than +10% to -5%
REDUCE	Between -5% to -15%
SELL	Lower than -15%

FAB Securities Contacts:

Research Analyst

Ahmad Banihani	+971-2-6161629	Ahmad.Banihani@Bankfab.com
Shahrukh Nawaz	+971-2-6161612	Shahrukh.Nawaz@Bankfab.com

Sales & Execution

Abu Dhabi Head Office

Trading Desk	+971-2-6161700/1	Online Trading Link
	+971-2-6161777	
Institutional Desk	+971-4-4245765	

DISCLAIMER

This report has been prepared by FAB Securities (FABS), which is authorized by the UAE Securities and Commodities Authority, licensing registration number 604002, and is a member of the Abu Dhabi Securities Exchange and Dubai Financial Market. The information, opinions and materials contained in this report are provided for information purposes only and are not to be used, construed, or considered as an offer or the solicitation of an offer or recommendation to sell or to buy or to subscribe for any investment security or other financial instrument. The information, opinions and material in this report have been obtained and derived from publicly available information and other sources considered reliable without being independently verified for their accuracy or completeness. FABS gives no representation or warranty, express or implied, as to the accuracy and completeness of information and opinions expressed in this report. Opinions expressed are current as of the original publication date appearing on the report only and the information, including the opinions contained herein, are subject to change without notice. FABS is under no obligation to update this report. The investments referred to in this report might not be suitable for all recipients. Recipients should not base their investment decisions on this report and should make their own investigations, and obtain independent advice, as appropriate. Any loss or other consequences arising from the uses of material contained in this report shall be the sole and exclusive responsibility of the recipient and FABS accepts no liability for any such loss or consequence. The value of any investment could fall as well as rise and the investor may receive less than the original amount invested. Some investments mentioned in this report might not be liquid investments, which could be difficult to realise in cash. Some investments discussed in this report could be characterised by high level of volatility, which might result in loss. FABS owns the intellectual property rights and any other material contained in this report. No part of this report may be reproduced, utilised or modified in any form either in whole or in part or by any electronic, mechanical or other means, now known or hereafter invented, including photocopying and recording, or stored in any retrieval system without the prior consent of FABS in writing. While utmost care has been taken to ensure that the information provided is accurate and correct, neither FABS, nor its employees shall, in any way, be responsible for the contents. By accepting this document, the recipient agrees he/she has read the above disclaimer and to be bound by the foregoing limitations/restrictions.